

EASTSIDE DISTILLING, INC.
(NASDAQ: EAST)



Third Quarter Fiscal Year 2019
Financial Results Conference Call

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5:00 p.m. Eastern

CORPORATE PARTICIPANTS

Lawrence Firestone – Chief Executive Officer, Eastside Distilling, Inc.
Steve Shum – Chief Financial Officer, Eastside Distilling, Inc.
Robert Manfredonia – President, Eastside Distilling, Inc.
Joe Dorame – Managing Partner, Lytham Partners

PRESENTATION

Operator

Good day, and welcome to the Eastside Distilling Reports Third Quarter Fiscal Year 2019 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star, then one on a touchtone phone. To withdraw your question, please press star, then two. Please note that this event is being recorded.

I would now like to turn the conference over to Joe Dorame of Lytham Partners. Please go ahead, sir.

Joe Dorame

Thanks, Jack. Good afternoon and thank you for joining us today to discuss Eastside Distilling's financial results for the quarter ended September 30, 2019. Joining us on the call today to discuss these results are: Lawrence Firestone, the new company's appointed Chief Executive Officer; Robert Manfredonia, Eastside's President; and Steve Shum, the company's Chief Financial Officer.

Following their remarks, we will open the call to your questions. Before we begin with prepared remarks, we submit for the record the following statement: Certain matters discussed on this conference call by the management of Eastside Distilling may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe future expectations, plans, results, or strategies and are generally preceded by words such as: may, future, plans, will, should, expects, anticipates, draft, eventually, or projected. Listeners are cautioned that such statements are subject to risks and uncertainties that could cause future results to differ materially from those projected in the forward-looking statements.

Such matters involve risks and uncertainties that cause actual results to differ materially. These include, but are not limited to, the company's acceptance and its success in the market; success in obtaining new customers; success in product development; ability to execute its business model and strategic plans; success in integrating acquired entities and assets; ability to obtain capital; ability to continue as a growing concern; and all the risks and related information described from time-to-time in the company's filings with the Securities and Exchange Commission, including the company's Annual Report on Form 10-K for the year ended December 31, 2018.

Now, I would like to turn the call over to Lawrence Firestone. Larry, please proceed.

Lawrence Firestone

Thank you, Joe, and thank you everyone for joining us today. Let me first say that I'm very excited to have been appointed as the new Chief Executive Officer of Eastside Distilling and I'm looking forward to leading this team going forward. Having been involved as a board member for the last couple of months, I understand the position we play in the market and the transformational opportunities we have to solidify our foundation and execute on the strategies that will enhance our value for all shareholders going forward.

It's been mentioned previously that over the past couple of years, the team at Eastside has created a fully integrated spirits platform with high-quality products developed by our best-in-class master distillers and blenders in every vertical, combined with our two rapidly expanding national brands, Redneck Riviera and Azuñia Tequila and our proven world-class branding. This makes Eastside's overall portfolio have a presence in the marketplace more like you'd normally see from the large multinational spirits companies, but with localized leadership, culture and efficiencies. Eastside's strong regional and national distribution relationships and established Tier 1 off-premise accounts like Walmart, Albertsons, and Kroger develop the platform for the extraordinary growth of Redneck Riviera Whiskey brand.

The recent acquisition of the ultra-premium Azuñia Tequila lineup is a perfect complement, bringing established on-premise distribution channels and many national accounts, such as Aimbridge Hospitality, Graduate Hotels, and many of the Landry's concepts, forming a large and already established reach, driving 16,000 to 17,000 cases annually in one of the fastest growing segments of the spirits industry. My primary focus in the near-term will be on working capital improvement, the integration of the company's acquisitions, working with Wall Street to get Eastside's name in the conversation, and exploring strategies to drive shareholder value.

With the growth rates we've achieved, we have much greater market opportunity than we currently have working capital will support this continued meteoric growth. The beauty of the chassis we've built is we can drive growth, based on the amount of fuel we put in the tank. As we continue to grow the company, we will explore a strategies such as high value brand exits that will enhance value for shareholders going forward. Clearly, the most urgent item we need to address in the near term is our burn rate and our working capital position.



We have over \$12 million of inventory with just \$3 million leveraged against it and we currently are in discussions with a bank for an inventory line of credit that will lend against our raw barreled spirits inventory. Also, we're in discussions with a finance institution for an accounts receivable line. We expect to have both of these lines in place over the next four-to-six weeks. As I've only been in this seat since yesterday, I'll reserve my specific thoughts for when I get a little deeper into the organization, but I look forward to expanding upon these strategies in the months to come.

I'll now turn it over to Steve for the financial comments.

Steve Shum

Thanks, Larry, and welcome aboard. Gross sales topped \$4.7 million in the quarter, an increase of 179% over last year. Net sales increased \$4.4 million, up 198%. As we stated in the press release, Azuñia contributed approximately \$230,000 in gross sales during the period. We acquired Azuñia on September 12th. So, this new brand addition contributed roughly three weeks' worth of results. Our 2020 expectations for Azuñia operations have not changed and we remain excited about this addition.

As we stated on our second quarter call, aside from expecting sequential revenue growth, we also had two other key goals for the remainder of the year: gross margin improvement and reduction in EBITDA loss. Gross margin on net sales improved 40% versus 38% in the second quarter of this year and 34% in the first quarter of this year. The EBITDA loss did come in slightly higher sequentially, even when backing out the unusual roughly \$420,000 worth of expenses related to the Azuñia transaction and some of the other board-related matters.

Branded sales including wholesale and retail increased 90% over last year's third quarter and was up 54% sequentially from the second quarter this year as the Redneck Riviera case volume came in at an all-time high of over 10,000 cases. Co-packing services revenue grew 425% over last year as a result of the acquisition of Craft Canning at the beginning of this year. However, it was down 12% sequentially. The Craft operations had allocated production time to a large customer, which did not meet their original targets during the quarter, and the team is working to add in additional customers into those open availabilities.

We closed the quarter with approximately \$447,000 in cash compared to \$768,000 in cash at the end of the second quarter and an overall working capital position of approximately \$11 million, which includes the \$2.1 million in accounts receivables and \$12 million in inventory. Although the plan is, we've mentioned a few times, to utilize our inventory and receivable assets to provide sufficient working capital have taken longer to complete and put in place. As Larry mentioned, those are in process. Additional details are available in the 10-Q, which has now been filed.

Let me turn the call over to Robert for additional detail. Robert?

Robert Manfredonia

Okay. Thank you, Steve. Good afternoon and good evening everyone. Let's get started. Third quarter results are as follows. Redneck Riviera Whiskey, 10,577 nine-liter cases, the breakdown 9,903 invoice cases with 674 cases shipped to control states; quarter three 10,577, quarter two 2019 4,271 for an increase of 6,000 and 6,306 cases, an increase of 148%; quarter three 2019, 10,577; quarter three 2018,



3,547 for an increase of 7,030 cases, an increase of 198%. Third quarter gross sales, \$1,458,458, quarter three 2018 gross sales \$554,757 for an increase of \$903,731, an increase of 163%.

Redneck Riviera total distribution year-to-date through quarter three: 8,909 points of distribution, quarter three 2018, 6,235 for an increase of 2,674 points of distribution, an increase of 43%. Our objective in 2019 is account depth with increased tactical activation to increase per point of distribution dollar contribution. On-premise corporate account focus is in full gear. Redneck Riviera is proud to announce we now have mandated distribution and a drinks feature at all Logan's Roadhouse restaurants across the country. Logan's Roadhouse has 175 locations in 19 States.

The third quarter and year-to-date success is attributed in large part to the detailed planning, execution, and the dedication of the entire team. Special thanks, as always, goes to John Rich. I can't say enough about his focus, leadership, and tireless work on the brand. John this year alone has done 60-plus store appearances, 85-plus live radio whiskey interviews, and personally signed in excess of 12,000 bottles.

Quarter three and early quarter four highlights include the following: The Redneck Riviera survival kit value-added pack is now fully deployed nationwide. Shipments to date are 10,100 cases. The fourth quarter timing display execution plan is as follows: We entered the market in mid-October for initial holiday display builds. John delivered his national press day on November 1st with heavy VAP promotional focus, immediate heavy sales ensued. VAP retail inventory got reloaded. John followed up with additional VAP focus on Fox News at the Patriot Awards on November 7th that will incidentally air on Fox on November 24. This will be a second top-down sales surge before Thanksgiving, and this will allow the Redneck Riviera brand to exit the year with momentum and enhance transactional data information.

Howdy Dew, the new Redneck Riviera RTD is now deployed. In November, we had shipments and purchase orders of 1,900 cases with the fourth quarter total plan of 4,000 cases. Initial shipments to eight states with three states already placing a second order. Same approach as Redneck Riviera Whiskey, we will take a pedal down approach specifically in the first quarter to build distribution. Howdy Dew is a wine-based RTD that provides entrance into another alcohol beverage distributional universe -- the beer and wine license entity, which has tripled the space of the spirits-based license universe. So, stores like 7-Eleven, QuikTrip, Circle K, Arco 8, ampm for the most part only sell wine, beer and malt-based products. This will provide Eastside an extensive, new distribution base. Also, we will review potential size, package and flavor extensions in the coming months.

The early feedback on Howdy Dew has been exceptional from retailers, wholesalers, and consumers.

SKU rationalization, we have completed a 20% SKU reduction. We will continue to review brands to ensure they meet the volume delivery expectations aligned to the Eastside Distilling strategy. Our national platform brand strategy of onboarding legacy Eastside brands is on target to commence on January 1. We will add Burnside Whiskey brands in Hue-Hue rum to six states nationally. The opportunity was made possible in part by the Azuñia sales team's expertise that provides new on-premise capabilities to drive traditional route-to-market brands like Burnside and Hue-Hue.

Lastly, Azuñia Tequila, again, the brand family is made up of Blanco, Reposado, Añejo, and Black, a two-year age brand. The integration process is in full gear, inclusive of sales, marketing, and logistics, new wholesale assignments, and licensing transition. I'd like to mention through the integration process, we're



getting to know these Azuñia sales team and we are extremely impressed by their passion, expertise and capabilities and this will provide Eastside enormous value moving forward.

Wholesaler reaction to Azuñia is favorable. Eastside is able to fill a void with wholesaler portfolios in the highest growth segment within spirits. Many of our wholesalers have limited or no premium luxury position tequila and many wholesalers have no organic tequila. We are currently directly engaging and introducing Azuñia to major corporate retailers and our objective and approach will remain the same as Redneck Riviera. Number one: Deliver expedited distribution. Number two: Build the Azuñia brand at our speed and not allow wholesalers to control the pace or retail access. Also, we just confirmed this week a new on-premise corporate account called Black Star Burger. They have awarded the well to Azuñia. The Well position, if you're not aware, is sought-after core position because it provides exponential volume because most cocktails come from the Well position. Black Star will have 100 locations in the United States in the next two years.

Worth mentioning again, we are perfectly positioned within tequila, because Azuñia is predominantly positioned in the luxury price segment, and that is the fastest growing dollar contribution space within total spirits.

To conclude, the Eastside commercial national platform strategy started in 2019 with one Redneck brand with incredible success -- one of the fastest growing first full year independent brands in the spirits space. We will expand nationally from one brand starting in 2019 to 12 brands in 2020. We will take the same massive action approach with the entire national portfolio moving forward. Also, we will have strong brands that are focused in the three highest growth segments in the beverage business above premium price whiskey, luxury position tequila, and now RTD participation. We couldn't be more excited about the Eastside platform, position in the market, and our future.

Before we open it up to Q&A, I want to take a moment and thank Steve Shum for his company's stewardship over the past four plus years. Steve's leadership, dedication, and skills have provided an invaluable contribution, especially with the Eastside national platform focus moving forward. So thank you again, Steve. Also, I want to welcome Larry. I believe his experience in various leadership roles in small public companies will support the Eastside navigation through the capital markets and further develop our financial strategies.

So, let's open it up to Q&A. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.



And our first question will come from Ian Gilson of Zacks Investment Research. Please go ahead, sir.

Ian Gilson

Good afternoon. So, I have a couple of small questions. The co-packing services business is down slightly. Is there a room for growth for Eastside within that business? Or are they basically maxed out?

Lawrence Firestone

I'll go ahead and take that one. Ian, nice to meet you. This is Larry. Now that we're running a lot of the packing business for the Eastside brands, such as the VAP packs and whatnot, we've consumed their excess capacity internally, so we can look at that as kind of vertical integration of the packing line inside of the company.

Ian Gilson

But you consumed all of their capacity and that means—

Lawrence Firestone

No, not all of it, but we still have remote lines in other states that generate revenue. But for the Portland-based, we're taking their capacity right now. But there's room for growth there.

Ian Gilson

Okay. So how is that priced, as of the moment? Is there an internal—

Lawrence Firestone

The pricing would be eliminated. It actually just shows up in our cost of goods sold.

Ian Gilson

Okay. Okay. The tequila business, according to the little note, let's say Azuñia contributed a 232,000-plus in, what is it, 12 days, which if you do some simple arithmetic is \$4.5 million annual run rate. Am I looking at this correctly apart from seasonality? Or are we really that big?

Lawrence Firestone

I'll throw that one over to Robert.

Robert Manfredonia

Ian, I think I would caution that it's very hard, because the way that that distributors and wholesalers order product to really decipher anything from a 15-day run, because they buy in bulk, right, and it changes from week, to week, to week. I think I would feel more comfortable giving you—once we give you the fourth quarter results, you're going to be able to see the healthiness of the business. We couldn't be more bullish on what Azuñia is doing and their growth. They've had a tremendous year-to-date, but we'll know and we'll have a little bit more transactional information that we're going to be able to provide you as we move forward. But it's really hard to decipher when you're looking at 15-days of business.

Ian Gilson

Yes, I know. I know, okay. But on the other hand, it's a very, very large number compared to the rest of the business.



Robert Manfredonia

It's definitely a little bit lower than that. That could just basically be the order cycle of a large distributor, let's call it the State of California, right. They ordered during that period and it's a large order as they're setting up for the fourth quarter. There's a lot of reasons why that that could be that way. It's not very incremental. It's bought in large bulks and it really comes down to the ordering cycle of the given state and the size of the state.

Ian Gilson

Okay. Advertising, promotional, and selling expenses took a very significant increase both on a sequential and a year-over-year basis. Is there, in fact, just an odd number or are we looking at similar increases for the rest of the year and into next year?

Robert Manfredonia

I think some of that is seasonal, Ian. And a part of that is supporting the VAP packs that happened in the third and fourth quarter. A part of that is some headcount additions in the sales team. But I don't think you would see those kinds of increases going forward.

Ian Gilson

Okay. On the last two years, basically, we have seen a peak in the fourth quarter at almost a 20% increase over and above the third quarter and a 50% increase over and above the second quarter. That would put the advertising marketing line for the fourth quarter in the order of \$2.5 million.

Robert Manfredonia

Yes. And again, I don't think you're going to see those kinds of sequential increases from third to fourth in this year.

Ian Gilson

Okay. Okay. The numbers that we had on points of distribution, the number, that came out rather quickly could you run through those again for me?

Robert Manfredonia

Yes, Ian. We have through the third quarter year-to-date just because of the way that we process distribution, we have in excess of 8,900 points of distribution and I'm referring just to Redneck Riviera. And through quarter three of 2018, we had—let me find my numbers here—we had 6,235 for an increase at 43%.

Ian Gilson

Okay. Alright. Thank you very much.

Robert Manfredonia

You're welcome.

Operator

Again, if you have a question please press star, then one. Our next question will come from Ross Taylor of ARS Investment Partners. Please go ahead, sir.



Ross Taylor

Okay, thank you. Can you guys give a little bit more color on the integration of Azuñia, which basically is on-premise and the Redneck, which is retail. How you see that rolling out? What kind of growth we should expect to see next year? I would think there would be tremendous synergies and those synergies should drive a substantially higher revenue growth, case growth, and the like. Can you give us a little bit of understanding of how you guys are seeing those early days of that that combination?

Robert Manfredonia

Yes. Yes, it's a great question, Ross. And really that is why we're so bullish on this acquisition, because really the expertise and really the capabilities of really, let's call it the Eastside Redneck National Team as it was, was really an off-premise driven entity. To just give you a little perspective, in the off-premise, 87% of the distribution on the national platform was driven in the off-premise. And if you look at Azuñia conversely, 67% of their business is done in the on-premise. So, we have a different skill set between the on-premise operators and what we've done very quickly in the off-trade. So really the goal here is to drive exponential distribution in the first quarter with Azuñia in the off-trade as we start to line-up corporate national accounts where the selling cycle is a little bit longer and conversely start to build out the on-premise balance with Redneck Riviera, but as importantly start to bring out the legacy brands like Burnside and Hue-Hue, that have to really take a traditional route to market in the on-premise.

So, the skill sets of I'll call it the old Azuñia team, pre-acquisition, is perfect for brands like Burnside and Hue-Hue. So, we're really excited that we have sort of a comprehensive platform with expertise in the on and off and that's how we're going to drive this moving forward. So, we should see some very aggressive volume growth in the first half of the year. That is correct.

Ross Taylor

Okay. And will these two, the asset-back line and the accounts receivable back line, will they provide the working capital or the capital that you need to execute your strategy as you see that laying out?

Lawrence Firestone

This is Larry. That's a big piece of putting together Q4 and heading into Q1. As I mentioned, we have probably \$8 million, \$8.5 million worth of over collateralization on the inventory side as we're sitting with around \$12 million in inventory and \$3 million leveraged against it. So that will free up quite a bit of capital. That will be percentages against liquidation rates, but what we'll end up doing is we'll fund that and we'll payback the \$3 million line and readdress that side of the house. And then on the AR line, if you think about Q4 and the in-quarter cyclical of the quarter, we'll start to see our accounts receivable grow as we get closer to the end of the quarter and the AR line will take over and give us some financing capability there.

Ross Taylor

Okay. So, it hasn't been mentioned in this call at this point in time, but in prior calls, it's been stated that the company would see no need, particularly at previous prices, which are higher than current prices, to access the equity markets. Can you give us that assurance at this time as well?

Lawrence Firestone

Well, I think with a company that is still burning cash and really in the burn rate there, it's funding the growth of the company. I think I'm not in a position to give assurances, but I think we're going to be



responsible with the working capital that we're bringing in. And with the growth of the company and what we're going to drive through Q4 and into 2020, we'll have an eye on capital markets, but I'm certainly not going to polarize a stock price or a timeframe on what we would do and when. It's really going to be business dependent.

Ross Taylor

Okay. I do think that a big part of why your stock is in a free fall as a part of that contributor is the fear that you're going to do an equity, so I would actually—particularly East price is being a large holder that you know that I would not be happy to see an equity offering. I consider you're giving stock away here half its value or less. And so, we would take great exception to any type of equity offering. Away from that, could you talk to us about—I haven't heard Hue-Hue mentioned much here. There's some thought that Hue-Hue has the potential to become a major brand on a national basis.

Robert Manfredonia

Yes, Ross. We were very bullish on Hue-Hue too. So, the plan as we sit here today is that January 1st we will have it in six states, and we will have it overlap with where we have our on-premise expertise. It stands to reason, because it's really going to start in the on-premise predominantly and have very limited high spotting in the off-trade. We think it has a very unique position within the market. When we say Hue-Hue Coffee Rum, I think it's almost a little bit more of a high-end cordial. And we're going to come up with, as we're developing now, some really unique marketing campaigns to support the brand.

But we think we're going to have a big splash, especially in California to start and then other markets across the US, South Florida being another area that we think we can do extremely well. That brand also has the capability to have a line extension of an RTD, which we're kicking around, I'll call it. We can ride into the RTD in a very unique way and use that almost as an outside in-build. So, there's a lot of elasticity with that brand and there are really not many brands like it out there. We wanted to really wait until we had the Azuñia integration done, so we didn't rush it. And we make a big splash and it's impactful, and then we will thoughtfully start to expand from there, from the six initial states. That's the plan.

Ross Taylor

Okay. And then my last area of questioning is with regard to the Big Bottom and the like, that's an area that has in the past or recent past seen a lot of transactional activity at very high valuations. It seems to me to be probably a natural fit, given the Azuñia sales force as well, something else to put in their briefcases when they call on people, given the attraction of the space. Can you talk to us about that?

Robert Manfredonia

Sure. It's a fair statement. And we think, because of the market dynamics and what single malt is doing and the capabilities of our distillers, we think we have something there. However, I would caution only in this way. We think there has to be a little bit of sort of a brand identity makeover of the brand. And the Big Bottom name has been a little bit challenging on the national platform. It plays well in Oregon. But, when we've served it up and gotten input from major retailers and wholesalers, there has been a little bit of a pushback with the name.

So, we're having our brand identity company look at it and see how we can make it—because the liquid is fantastic, the market is right. We just have to make sure the brand identity is correct and so we can scale-up that brand and that portfolio.



Ross Taylor

Okay. It makes sense. It's always been stuck as a little bit of an odd name to begin with. It isn't the only liquor with an odd name. Okay, well good luck. And good luck in driving that top-line, which can therefore get us more AR, so you can borrow against.

Robert Manfredonia

Sounds great. Thank you, Ross.

Ross Taylor

Thank you. Take care.

Operator

Again, if you have a question please press star, then one.

Our next question will come from Harold Weber of Aegis Capital. Please go ahead, sir.

Harold Weber

Hi. Good evening and good afternoon guys. A couple of questions. First in regard to Azuñia, we understand that we're looking to grow this, and it seems going very well. How much capacity capability [indiscernible] have to in fact fulfill growing orders?

Robert Manfredonia

Yes, great question. We did a lot of research with it, a lot of the valuation, other capabilities because as you probably know, when you're talking about a plant, right, an agave plant, there's a uniqueness and there's a seven-year build-out from plant to harvest, right. So, we did a lot of research on it. We put together a very robust, very robust five-year plan and we have no concerns at all that we can't fulfill what we believe we can do in the next five years. In fact, when we did our research and did all the accounting work on it, we almost have double the capacity of what we're projecting for the next five years. So, we feel comfortable with that.

Harold Weber

So, it's reasonable to say then that at the current status we can fill as much orders as we can get pretty much. Is that reasonable to say?

Robert Manfredonia

Absolutely, yes.

Harold Weber

Okay. I think that's a big deal because I have to be able to sell. Again, it's just very nice to have demand, but if we can't supply, that's a problem. Okay. So, you don't see that, so that's not an issue. Very good. On a different level completely. There hasn't been any discussion about what's been with the Outlandish, could you give a little update on that please?

Robert Manfredonia

Yes. Well as you know, Outlandish has only been in Oregon and what we use Oregon for, as you are aware, is a lot of our testing, our modeling. Not only is it home base for us, but it's also a test market for



us. We just put together two line extensions of it. We have ginger. We've just added a ginger to it and we just brought in small refrigerators as one tactic where we're going to start putting them in bars and restaurants and we're going to start really trying to push it and understand the capabilities of the brand. We also just presented to a very large retailer in Oregon called Plaid Pantry, 175 locations in the state. And we feel very comfortable that we're going to be going into that chain.

So, I tell you that granular information, because I think if we go into a Plaid Pantry type of account, we have second and third locations, we're going to really understand the capabilities and the acceptance of a CBD mixture like Outlandish. So, we need a little bit more time to do a little bit more testing and then we'll provide an update to the market on exactly where we stand and what the next steps are.

Harold Weber

Okay. Previously you had discussed the concept of being able to can stuff off location and mobile units and things of that nature, which next to you is Washington, California, which the stuff is okay to sell. Has there been any further contemplation on that and what type of feedback have we been getting from actual customers who have been trying the new stuff?

Robert Manfredonia

Are you referencing Outlandish?

Harold Weber

Yes, at the moment, yes. Yes, I mean, you have three flavors. I don't know how many you have in the market right now, just you have to raise—

Robert Manfredonia

No, no, you're correct.

Harold Weber

You only have two now?

Robert Manfredonia

Yes. Well when I say we have three, we are launching three.

Harold Weber

Right.

Robert Manfredonia

The two are going into the market next week. They're already made, and they're being distributed out right now, they're being picked up by wholesalers for distribution. So, it's brand new on the two. The seltzer was the first one and the acceptance has been fantastic. It fits a place in the marketplace. They like the packaging; they like the size; the price point is correct against competition. So, we feel good about it. We just have to scale it up a little bit more for that data test to really have some in-depth information on what we believe the brand can be. And then what the next steps are going to be from an investment standpoint.



But we think it's a really, really interesting idea. And obviously, CBDs have captured—I don't want to say the imagination of the consumer, but it's become a hot space across the U.S. and we're going to work as fast as we can thoughtfully and make sure that we have something. And if it is right, we will take the necessary financial investment to drive it and support it.

Harold Weber

Okay. Just two other things. I want to echo the comment from previously from the other large holder that you guys you want to take a credit line or use receivable, that's fine, but you should no way be thinking about doing any kind of equity offering here, since we put in millions of dollars in this thing at twice the price. And I hope you guys can appreciate that. And I'm not giving away to store here, especially to people who are helping you and support from the beginning.

And the second thing I wanted to say, which I feel is quite important. I believe you guys; you've done a great job with the products and the labeling and the names and so forth and you continue to do that.

I believe you need to come up with some type of a logo or something along those lines for identity for the company as a whole. You send out emails, you send out stuff it's completely, completely bland. We should have something, some type of an identity, some type of a company logo, whether it's a product or a group of products, something to identify us that sticks out, not just some bland nothing. And I've been talking about this for a year. And you take a look at this stuff, it's completely—it's milk toast and that's not who we are.

So, I would like to say that I think we should spend some time on brightening that up and, when people see that they should remember it, because there's nothing there. There's zero retention when you look at that, there's nothing there.

Robert Manfredonia

Understand. Understand. And I think your point is very valid. I can tell you that we've just had these internal conversations of what you just mentioned over the past two weeks and we've added a significant marketing person to provide continuity for the whole portfolio, but also to work on things like what you just mentioned, because I think it is critically important that that people understand what Eastside Distilling is. They understand the brand and we market it correctly for the halo of the brands themselves. So, message heard.

Harold Weber

Okay. I mean this thing should be worth trading at two or three times where it is, based on all the efforts and the growth that we're doing. And the people don't seem there's no — there's no stickiness. And that's a big problem I find. And I try to explain it to people and they say it's invisible. Where is it? So, I'm glad that you guys realize that we need to have some. People see it, they should be able to remember who we are, what we are and what we stand for. So, I appreciate that. Thank you.

Robert Manfredonia

You're welcome.

Operator

Our next question will come from Chris Leshock of Ballast Equity. Please go ahead, sir.



Chris Leshock

Good afternoon gentlemen. I wanted to follow-up with every other comment. Thank you to Steve and the stewardship that he's given the company over the last several years. Between John Rich and Steve Shum, they're the reason why we are in the stock today and it's been an absolute gem to meet Robert over the last year and to see the results that he's put up on the board have been nothing short of impressive.

The business model is working. The revenue top-line is growing the way it should. The new products are coming. The points of distribution are there. And I would just implore the new Board members, all Board members to work on clearing the executives and the prior Board issues that have really clouded and delayed this company from working 100%.

And so, I implore everyone to get rowing in the right direction because all the pieces are there, everything that's needed is in hand. Also, I want to echo the comments, no equity here. It's not the right price at all. Also, I wanted to support the Hue-Hue comments, completely agree Robert's comments on the cordial aspect to it based on just the limited personal experience with my friends here in Chicago, the product is widely accepted. It's a great little sliver of the market that you could sell. And then RTD off of that is amazing. And just to give an update, the Redneck value packs are here in Chicago. They're placed prominently in the three places I looked and I can report that they're selling quite briskly, so kudos to everyone on that.

The question I have here is, in the past Steve has talked about gross margin targets and previously that had been 50% range or higher. We've had some issues and some changes to the company that have brought it down. We're now at 40%. What's kind of the longer two- to three-year outlook? What kind of number does management think that they can either aspirationally get to or the target drive? That's question one.

Lawrence Firestone

This is Larry. I'll take that one. I think it's really a product mix question. So as you look at what Robert described to going from 1 product to 12 and penetrating the market, when you look just as an example in the Azuñia product lines, the Blanco product would be a lower margin product, that's a more saturated part of the market. But then as you move up towards Black, those are really super healthy margins. So, I would expect that we'll be running in the 40% to 50% range, really similar range to what you've seen. But then, as we add canned goods, like RTDs, like Howdy Dew and things like that, some of those products may not carry those kinds of margins. They will be just more volume-based products. But I think it's achievable based on the numbers that I've seen to still stay in that range on a blended basis.

Robert Manfredonia

I'll add a little bit more onto to your comments, Larry.

Lawrence Firestone

Yes, good.

Robert Manfredonia

The above premium and luxury position is where we are going. We will not deviate from that. You have my word, we won't deviate from that. That's where the growth is and that's where the profitability and



margin is. So that is a focus of the company. The on-premise, off-premise balance, because the off-premise is a lot more profitable, because the support is a lot less. So, it helps the overall net of the brands, is going to help. So, when we start to focus on above premium luxury position brands, we have better balance with the portfolio.

And then lastly, we start to remove low margin brands that aren't part of the national platform that will enhance everything else that we're doing. So, for me, it's a three-pronged approach of where we're going to be focused on and then having balance, and then removal of items that don't fit the margin requirements of the company. So, we do all those things. And that is the objective and that's the task. We will start to reposition that line that we need to increase.

Chris Leshock

Great. Thank you. And if Larry or Steve could just give any comments to the SG&A line of spend, a little bit of discussion, but is a \$5 million per-quarter run rate, would that be a fair sustainable-type level for the next say four-to-six quarters? Or does that need to go higher? Just seemed if we could get some restraint on that line or some slowing growth, the revenue growth is going to make margin start to work, but that line in particular is one that's been very difficult.

Lawrence Firestone

Yes. Steve, do you want to take that one or you want me to take that one?

Steve Shum

Yes, yes, sure. I'll take an initial shot at it, Chris. I mean, again, we had some unusual onetime cash expenses in the quarter that we'd like to think are not going to continue to repeat. But it's a counterbalance, although it's on a non-cash basis, we are going to start experiencing or we have done well, especially now with Azuñia transaction and the amortization, we are going to be incurring some higher non-cash depreciation amortization type expenses moving forward.

But I'd like to think that our cash costs will come under better control, and actually maybe come down a little bit as we get past some of these unusual items. And of course, we've also added the Azuñia team, so we will have some higher expenses ongoing from that. But again, extracting the onetime, adding the normalized expenses, hopefully, that's around net neutral, but with the added depreciation amortization expenses that will trend it up a little bit from here.

Chris Leshock

Thank you.

Robert Manfredonia

Chris, I wanted to say one more thing. I appreciate the kind words that you mentioned about me, with sales, but I like to again point to that we've really put together a dynamic sales team on the national platform. They've done an outstanding job. The leadership, inclusive of the Senior Vice President of Sales has been outstanding. So, I put the credit to the team, not really to me. I'm just part of that team. But I think our future is very, very bright on where we're going. We've assembled a top team with the Azuñia integration and what we already have existing. And I think what we're going to do is going to be incredible moving forward.



CONCLUSION

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Firestone for any closing remarks. Please go ahead, sir.

Lawrence Firestone

Thank you. In closing, first, thanks again to Steve for leading the company to the point where we are today and also to Robert and the rest of the team. And really, the whole company for marshaling the efforts of putting together a growth platform that's really second to none in a product portfolio that looks like we have the tiger by the tail.

Also, to the Azuñia team and the Craft Canning team for rallying in with pretty, pretty rapid acquisitions and integrations. So, we have a lot of work ahead of us on the inside of the company, but I believe there are great things ahead for the company and feel a great deal of optimism for the growth in the company and to shareholders.

And as we look forward to continually growing the business and unlocking the shareholder value that resides within. And certainly, we echo the comments and all the commentary around selling shares at these prices, but we're going to work that as needs of the business. And then, to the comment that was made about the Board and the management team, the Board is absolutely in line with settling everything down and moving forward. And I think we have a real focus in it and on the issues at hand in taking the company to the next step.

So, with that I'll thank everybody for joining the call and we'll talk to you again next quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

